

4 November 2021

### **Chairman's Address**

The Group has recorded an after-tax result of \$6.455 million which is 44.18% greater than FY20.

The final declared fully franked dividend for FY21 is 13 cents. In line with its new dividend payment plan, the final dividend has been paid 6 September 2021.

### **Effects of Government Grant and Shortage of Building Supplies**

As anticipated in my Chairman's Letter from last year's Annual Report, there has been a substantial impact on the building industry, as a result of the introduction of the Government Grant into an already buoyant housing market. It is difficult to blame Government for this, but the industry bodies that clamoured for the introduction of the grant must take the blame. Along with this the significant shortages of building materials and labour due to COVID-19 impact, and other global issues have negatively impacted us causing delays in construction particularly in the last quarter of the financial year. Extremely high volumes of applications for bank loans have caused significantly slow approvals.

### **Tamawood is Energy Conscious / Environmentally Friendly**

- Dixon Homes was the first builder in Queensland to install solar hot water as standard in all of its homes (since 1996) reducing emissions by over 30%.
- First major builder in Queensland to fully insulate its homes.
- First major builder in Queensland to include photovoltaic systems (1.5kw) on all of its homes and then move to 5kw systems as standard on all homes (since 2004).

### **Global Energy Shortage**

There has been significant underfunding in the global energy sector over the past 4 years, resulting in world wide shortages in electricity and gas supply. This is severely affecting manufacturing particularly in China where rationing of electricity consumption is a common practice. The manufacturing of key components for the majority of building products, involves high energy consumption. As a result, we are currently seeing significant interruptions to our supply chain in relation to many of our building products with a flow on effect of substantial price increases.

Evidence of this includes:

- Timber increases of 100% plus;
- Blue Scope Steel price rise of 69%;
- Steel Frames increase of 28% or more;
- Tapware increase of 20% plus;
- Windows increase of 8% or more;
- Gyprock increase of 6%;
- Reinforcing steel increase of 25%;
- Brick increase of 3%;
- Floor covering increase of 10-20% or more;
- Shelving increase of 18%;
- Household sewerage treatment of 8%;
- Oven consistently sourced from a supplier of 10 years, are significantly delayed due to parts shortages and electricity rationalisation;
- Overall production prices in China are up 11%;
- In January 2022, we expect further increases.

Added to this is the cost of logistics, which has more than doubled per shipment from China and other overseas ports. We are definitely not experiencing a 2% per year core inflation as reported by the Reserve Bank.

### **Licensed Subcontractor Shortages**

The subcontractor shortage has seen significant rate rises as licenced trades people have been able to auction their services to the highest bidders. Subcontractors are now able to earn the same money working 3 days a week versus a 5 to 6 day week, 12 to 18 months ago, which is exacerbating the shortage. This shortage is worsened by the 4 year apprenticeship system in Queensland and as a result, builders are now delaying projects. In some areas the situation is at breaking point where it is likely that some builders who have not put sufficient plans in place will not survive.

### **Additional NCC Building Requirements – Energy Ratings**

In addition to this, the NCC is looking to bring in new energy rating standards which would require double the current insulation specifications. Presently, local manufacturers can only manufacture 50% of current demand and with the potential introduction of the new standard, this capacity would be halved placing further pressure on construction time and completions.

### **State Governments Public Works Stimulus**

As noted above, the building industry is faced with a subcontractor labour shortage and significant material shortages. The state governments have further inflated the problem with additional public building projects.

## **FY22 Outlook**

Due to these combined pressures, the construction industry is facing significant challenges over the next 18 months. This will require careful planning by the board and management team, to ensure we maintain our ability to deliver on the contracts we enter into with our clients, in a timely manner, and at the same time maintain profitability. The strong result for FY21 is due to the forward planning and excellent management of the challenges facing the company in FY21. However, the outlook presents a growing range of supply challenges. The board and management team have made a number of decisions recently, to ensure we are in the best possible position to deal with market conditions. One of the measures implemented is to withdraw from certain geographical areas where it is difficult to source labour. We are also limiting the number of contracts we enter into, to levels we are comfortable we can deliver. We will continue to monitor potential price increases and circumstances that have the potential to impact costs so that we maintain profitability. Our strong relationship with AstiVita Limited has assisted with minimising the cost impact on fixtures and fittings when compared to the significant increases experienced by items sourced from other suppliers such as appliances, toilets and tapware.

In spite of all the difficulties, it is good to note that the market is strong and we are maintaining sales at a level we are happy with. We have had a good start to the year, with unaudited results similar to the same period FY21. This holds us in good stead, and we will be working hard to produce the best possible result under the current prevailing circumstances.

Tamawood remains debt free with in excess of \$3.195 million in the bank and a further \$1.628 million to be received in early December.

Authorised By:

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Chairman